

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 STR-04 SP-02 AID-05 EB-07 NSC-05

CIEP-01 SS-15 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01

L-03 H-02 PA-01 PRS-01 NEA-10 IO-10 ABF-01 /103 W

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R 120713Z NOV 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9350

INFO AMEMBASSY RANGOON

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USADB

FOR NAC AGENCIES

E.O. 11652: \$, DECLAS 2/12/76

TAGS: EAID, EFIN, BM

SUBJECT: PROPOSED ADB SUPPLEMENTARY LOAN FOR POWER TRANSMISSION
PROJECT (BURMA)

REF: MANILA 15564

SUMMARY: ADB MANAGEMENT PROPOSES \$6.1 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO GOVERNMENT OF BURMA
TO FINANCE FOREX COST OVERRUN AND ADDITIONAL FOREX COST
TO COMPLETE POWER TRANSMISSION PROJECT FOR WHICH TWO LOANS
TOTALLING \$6.1 MILLION WERE MADE BY ADB IN DECEMBER 1973.
NAC GUIDANCE IS REQUESTED. END SUMMARY.

1. ADB DOC. R107-75 WITH ATTACHMENTS DESCRIBING PROPOSED
LOAN POUCHED ADDRESSEES NOVEMBER 7. BOARD CONSIDERATION
SCHEDULED NOVEMBER 27.

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2. ADB MANAGEMENT PROPOSING \$6.1 SUPPLEMENTARY

LOAN FROM SPECIAL FUNDS RESOURCES TO GOVERNMENT OF BURMA FOR POWER TRANSMISSION PROJECT. PROCEEDS WILL FINANCE FOREX COST OVERRUN INVOLVED IN CONSTRUCTION OF 230 MILES OF 66 KV TRANSMISSION LINES AND SUBSTATION, AS WELL AS INCREASE IN SUBSTATION CAPACITY AND CONSTRUCTION OF AN ADDITIONAL SUBSTATION. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, 1 PERCENT INTEREST. SOCIALIST REPUBLIC OF UNION OF BURMA TO BE BORROWER AND ELECTRIC POWER CORPORATION (EPC) THE EXECUTING AGENCY. GOVERNMENT INTENDS TO RELEND PROCEEDS TO EPC AT 6 PERCENT INTEREST PAYABLE OVER 23 YEARS WITH 3-YEAR GRACE PERIOD IN ORDER TO SYNCHRONIZE WITH REPAYMENT PERIOD OF PREVIOUS LOANS FOR SUBJECT PROJECT.

3. IN DECEMBER 1973, BANK APPROVED TWO LOANS TALLING \$6.1 MILLION FOR THIS PROJECT (\$4.0 MILLION FROM SPECIAL FUNDS AND \$2.1 MILLION FROM ORDINARY CAPITAL RESOURCES). PROJECT, WITH TOTAL COST OF \$9.1 MILLION, WAS ORIGINALLY DESIGNED TO TRANSMIT POWER GENERATED BY TWO GAS TURBINE POWERED STATIONS ON WEST BANK OF IRRAWADDY RIVER TO LOAD CENTERS IN PROJECT AREAS. INCLUDED WERE (A) 25 MILES OF 66 KV DOUBLE CIRCUIT TRANSMISSION LINE FROM KYUNCHAUNG GAS TURBINE POWER STATION IN CENTRAL BURMA TO CHAUK SUBSTATION ON EAST BANK (EXCLUDING ALREADY INSTALLED RIVER CROSSING PORTION); (B) 205 MILES OF 66 KV DOUBLE CIRCUIT TRANSMISSION LINE FROM MYANAUNG GAS TURBINE POWER STATION IN SOUTH BURMA NORTH TO SINDE AND SOUTH TO MYAUNGMYA; AND (C) CONSTRUCTION OF FOUR SUBSTATIONS, INCLUDING TRANSFORMERS AND RELATED EQUIPMENT.

4. TECHNICAL MODIFICATION OF PROJECT PROVIDES FOR UPGRADING TRANSFORMER CAPACITY FOR NYAUNGMYA SUBSTATION FROM 3 MVA TO 8 MVA TO MEET POWER DEMAND OF 5 MVA FOR JUTE MILL PROJECT. (SEE SEPTTEL (MANILA 15805) FOR THIS PROPOSED ADB-FINANCED PROJECT.) EPC ALSO PROPOSES TO RELOCATE 3 MVA TRANSFORMER AND RELATED EQUIPMENT ORIGINALLY DESIGNED FOR NYAUNGMYA, FOR USE AT A SUBSTATION PROPOSED TO BE BUILT AT YEGYI LOCATED WITHIN SOUTHERN PROJECT AREA. AS MODIFIED, PROJECT NOW CONSISTS OF CONSTRUCTION OF LIMITED OFFICIAL USE

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TION OF 230 MILES OF 66 KV TRANSMISSION LINES AND FIVE SUBSTATIONS. WITH INCLUSION OF ADDITIONAL 8 MVA SUBSTATION EQUIPMENT, PROJECT IS NOW SCHEDULED TO BE COMPLETED BY END 1978 INSTEAD OF MARCH 31, 1978, WHICH IS SAME DATE JUTE MILL IS EXPECTED TO BE ESTABLISHED.

5. TOTAL COST OF PROJECT NOW ESTIMATED AT \$19.5 MILLION, WITH \$12.2 MILLION FOREX COMPONENT. ABOUT

\$5.2 MILLION OF THIS AMOUNT IS RELATED TO COST OVERRUN AND \$0.9 MILLION TO PROPOSED TECHNICAL MODIFICATION AND CHANGE OF SCOPE. FOREX COST OVERRUN IS DUE TO WORLDWIDE PRICE ESCALATION FOR THIS TYPE OF EQUIPMENT, E.G., COMPONENTS SUCH AS STRUCTURAL STEEL, ALUMINUM CONDUCTORS AND MANUFACTURED ELECTRICAL EQUIPMENT, WHICH HAVE EXPERIENCED PARTICULARLY SHARP PRICE ESCALATION SINCE ADVENT OF ENERGY CRISIS FROM FOURTH QUARTER OF 1973. COST OVERRUN IS NOT REPEAT NOT DUE TO DELAY IN PROJECT IMPLEMENTATION. LOCAL CURRENCY COMPONENT NOW \$7.3 MILLION EQUIVALENT INSTEAD OF ORIGINAL \$3.7 MILLION IS TO BE FINANCED PARTLY BY EPC OUT OF INTERNAL CASH GENERATION AND PARTLY BY GOVERNMENT EQUITY CONTRIBUTIONS, OF WHICH \$3.6 MILLION IS RELATED TO COST OVERRUN AND ADDITIONAL COST. LOCAL COST OVERRUN REFLECTS STEEP INCREASE IN COST OF CONSTRUCTION MATERIALS AS WELL AS LABOR COST.

6. BANK STAFF INDICATE THAT OVERALL MANAGEMENT OF EPC, THE EXECUTING AGENCY, IS GENERALLY EFFICIENT, EVEN THOUGH ITS MANAGEMENT STRUCTURE COULD BENEFIT FROM REORGANIZATION AND IMPROVEMENT. TECHNICAL OPERATIONS HAVE BEEN PROFESSIONALLY COMPETENT AND EFFICIENT AND BOTH MANAGERIAL AND TECHNICAL STAFF CONSIDERED FULLY COMPETENT TO UNDERTAKE PROJECT. SPECIAL PROVISIONS HAVE BEEN INCORPORATED IN LOAN DOCUMENTS REQUIRING EPC, WITHIN ONE YEAR, TO ESTABLISH ACCEPTABLE PROGRAMS FOR IMPROVEMENT OF ACCOUNTING SYSTEM AND PRACTICES AND INTERNAL AUDITING TECHNIQUES AND PROCEDURES.

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 STR-04 SP-02 AID-05 EB-07 NSC-05

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FOR NAC AGENCIES

7. UPON COMPLETION, PROJECT WILL PROVIDE FOR TRANSMISSION OF ELECTRIC POWER FROM TWO GAS TURBINE POWER STATIONS TO LOCAL LOAD CENTERS ALONG IRRAWADDY RIVER WHERE INDUSTRIALIZATION HAS BEEN STEADILY PROGRESSING AND WILL ASSIST FURTHER INDUSTRIAL DEVELOPMENT OF AREA. BOTH POSWER STATIONS HAVE ALREADY BEEN COMPLETED AND ADEQUATE TRANSMISSION FACILITIES ESSENTIAL TO OPERATION FROM CHEAP AND RELIABLE ENERGY SOURCES. POSSIBLE REDUCTION IN SCOPE OF PROJECT WAS CONSIDERED BY BANK MISSION IN VIEW OF CONSIDERABLE COST OVERRUN. HOWEVER, THIS NOT FOUND TO BE PRACTICABLE BECAUSE OF NEED TO CONNECT POWER STATIONS TO LOAD CENTERS. BANK INDICATED GOVERNMENT HAS NO AVAILABLE FOREX RESOURCES TO FINANCE COST OVERRUN AND HAS BEEN UNABLE TO OBTAIN ALTERNATIVE SOURCES OF FINANCING EITHER FROM BILATERAL OR OTHER SOURCES.

8. REVISED PROJECT IS CONSIDERED TO BE TECHNICALLY
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SOUND AND, EVEN WITH COST OVERRUN, IT REMAINS FINANCIALLY AND ECONOMICALLY VIABLE. PROJECT WILL RESULT IN LARGE OPERATING COST SAVINGS SUBSTANTIAL FOREX SAVINGS AS GAS TURBINE EQUIPMENT WILL BE POWERED BY LOCALLY AVAILABLE FUEL. FINANCIAL INTERNAL RATE OF RETURN IS ESTIMATED AT 9.4 PERCENT (7.7 PERCENT AFTER TAX); ECONOMIC INTERNAL RATE OF RETURN ON INCREMENTAL COSTS AND BENEFITS IS ESTIMATED AT 10.4 PERCENT. PROJECT WILL MEET CONSIDERABLE SUPPRESSED DEMAND IN PROJECT AREAS AND IS BASIC TO THEIR ECONOMIC AND SOCIAL DEVELOPMENT. IN VIEW COST OVERRUN, NAC GUIDANCE IS REQUESTED.

9. REQUEST RANGOON'S COMMENTS FOR NAC AGENCIES, INFO
USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY
1972.
SULLIVAN

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Message Attributes

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Draft Date: 12 NOV 1975
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Disposition Approved on Date:
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